

Message Text

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TO AMEMBASSY CAIRO IMMEDIATE

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EXDIS

FOR UNDER SECRETARY ROBINSON AND EXECUTIVE DIRECTOR POATS

E.O. 11652: GDS

TAGS: OVIP (CHARLES W. ROBINSON)

SUBJECT: PETROMIN DEVELOPMENT PLAN APPROVED

FOLLOWING SENT SECSTATE WASHDC INFO BEIRUT DHAHRAN KUWAIT
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E.O.: 11652: GDS

TAGS: ENRG, USSAEC, EAID, US, SA

SUBJ: PETROMIN DEVELOPMENT PLAN APPROVED

BEGIN SUMMARY: WE HAVE SECURED A COPY OF THE PETROMIN
DEVELOPMENT PLAN FOR THE NEXT FIVE YEARS TOGETHER WITH
A COPY OF THE DECISION MADE AT A JANUARY 14, 1974 MEETING

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OF THE BOARD OF DIRECTORS. PRELIMINARY ANALYSIS INDICATES

THAT IT IS A PLAN IN WHICH U.S. COMPANIES WILL PLAY A MAJOR ROLE AND IN WHICH ACCESS TO THE U.S. MARKET WILL BE ESSENTIAL IF THE PLAN IS TO BE FULLY SUCCESSFUL. WE MIGHT AND PROBABLY SHOULD CONSIDER IT AS A STARTING POINT FOR A MAJOR U.S. INITIATIVE WITH THE SAUDIS AS A FOLLOW-UP TO THE PROJECTED CONSUMER-PRODUCER CONFERENCE. END SUMMARY.

1. WE HAVE SECURED INDEPENDENTLY OF OTHER USG AGENCIES A COPY OF THE PETROMIN FIVE YEAR PLAN AS PRESENTED AT THE BOARD OF DIRECTORS MEETING OF JAN 14. THE PLAN IS BROKEN DOWN INTO AN "A" PLAN AND A "B" PLAN, THE FIRST PROJECTED AT 12 MILLION BPD AND THE SECOND AT EIGHT MILLION BPD. THE BOARD IS UNDERSTOOD TO HAVE OPTED FOR THE HIGHER FIGURE BUT IT IS TO BE IMPLEMENTED AT THE LOWER RATES OF PLAN B PRODUCTION ESTIMATES THROUGH 1980.

2. PLAN A WILL CALL FOR FOUR PETROCHEMICAL PLANTS BEGINNING TO COME ON STREAM IN 1980, TWO LARGE REFINERIES, ONE OF WHICH WOULD BEGIN PRODUCING IN 1980 AND A SECOND IN 1983, FOUR FERTILIZER PLANTS BEGINNING IN 1979, ONE METHANOL PLANT IN THAT SAME YEAR, ONE STEEL PLANT IN 1981, AND ONE ALUMINUM PLANT IN 1980. ALL OF THESE WOULD BE IN THE EASTERN PROVINCE. IN THE WESTERN PROVINCE, THERE WILL BE ONE REFINERY AND ONE PETROCHEMICAL PLANT BY 1981. PLAN A IS EVALUATED BY THE PLAN DRAFTERS (MOSTLY ARTHUR D. LITTLE) AS MEANING THAT SAUDI ARABIA COULD ESSENTIALLY UTILIZE COMPLETELY ALL FLARED METHANE AND PARTIALLY USE THE ETHANE. THERE WOULD BE SEVERE MANPOWER AND INFRASTRUCTURE PROBLEMS BUT THE PRODUCT VOLUMES WOULD BE "ACCOMMODATED" IN WORLD MARKETS.

3. PLAN B WOULD ESSENTIALLY HAVE THE NUMBER OF PETROCHEMICAL PLANTS (FROM FIVE TO THREE), ONLY PERMIT THE BUILDING OF ONE REFINERY BY 1982, AND TWO FERTILIZER PLANTS BY 1979 AND 1980. THE WEST WOULD RETAIN ITS ONE REFINERY AND ONE PETROCHEMICAL PLANT. THE ADVANTAGE WOULD SOLELY BE MUCH REDUCED MANPOWER AND LESSENING INFRASTRUCTURE PROBLEMS.

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4. PARTICULARLY IN OPERATING LABOR, THE TWO PLANS ARE IN CONTRAST WITH EACH OTHER. PLAN A REQUIRES 24 THOUSAND OPERATING EMPLOYEES, PLAN B ONLY 14 THOUSAND.

5. THE PLAN EVALUATES THE COST/BENEFIT RATIOS OF PRODUCING BOTH STEEL AND ALUMINUM IN SAUDI ARABIA VERSUS OTHER AREAS AND INDICATES THAT (AT 10 CENTS A MILLION BTU EQUIVALENT GAS COST) THAT CAST STEEL MIGHT BE AMONG THE

CHEAPEST IN THE WORLD, AT \$90 PER METRIC TON COMPARED TO \$121 IN THE U.S. AND \$145 IN EUROPE. ALUMINUM (AT THE SAME COST FOR GAS) IS MORE EXPENSIVE, HOWEVER, TO PRODUCE IN SAUDI ARABIA ACCORDING TO THE PLAN DRAFTERS: THIRTY TWO CENTS COMPARED TO TWENTY THREE CENTS PER POUND IN THE U.S.

6. WE HAVE ALSO SECURED A COPY OF THE ACTUAL DECISION WITH ANNOTATIONS MADE BY ONE OF THE MINISTERS DURING THE BOARD OF DIRECTORS MEETING. IT APPROVES THE PLAN AND, SOMEWHAT IN CONTRADICTION CALLS FOR THE ADOPTION OF THE PROJECTS MENTIONED IN PROGRAM A "BASED ON THE AVERAGE CRUDE OIL PRODUCTION ESTIMATED AT 8 MILLION BPD" NOT THE 12 MBPD ACTUALLY SPECIFIED. THIS MATCHES EARLIER INFORMATION THAT, FAILING TO AGREE ON CHOOSING EITHER PLAN THE BOARD CHOSE BOTH. IT IS PROBABLY ACADEMIC IN ANY CASE SINCE THE BOARD'S CHOICE MEANS ONLY THAT FEASIBILITY STUDIES UNDER PREPARATION WILL STILL HAVE TO BE CONSIDERED ON A CASE-BY-CASE BASIS. THE DECISION ALSO CALLS FOR EMPHASIZING THE COMMERCIAL PROFITABILITY OF ALL PROJECTS AND SUGGESTS THAT PETROMIN WILL CARRY OUT ANY PROJECT ITSELF WHICH IS PROVED TO BE SOUND BUT FROM WHICH THE FOREIGN PARTNER DECIDES TO WITHDRAW. (THIS COULD BE SIGNIFICANT IN THAT IT GIVES PETROMIN A BASIS FOR TAKING OVER PROJECTS BY PLACING UPON THEM UNACCEPTABLE CONDITIONS EVEN WHILE APPROVING THEM BUT IS IN REALITY UNLIKELY TO HAPPEN). THE DECISION ALSO CALLS FOR AN LPG SHIPPING PROGRAM AND FOR PRODUCING PROTEINS FROM FUEL OIL AND SEEMS TO APPROVE BOTH A CRUDE AND NATURAL GAS PIPELINE ACROSS THE PENINSULA. THE HANDWRITTEN NOTATION (BY HISHAM NAZER UNDOUBTEDLY) CALLS FOR PETROMIN TO FULL COORDINATE ALL OF ITS DECISIONS WITH THE CENTRAL PLANNING ORGANIZATION.

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7. A PRELIMINARY ANALYSIS INDICATES THAT THE PLAN IS STILL REALLY ONLY AN OUTLINE OF INTENTIONS (ALTHOUGH ADL BRIEFED THE BOARD RATHER FULLY DURING ITS PRESENTATION WHICH WAS, WE ARE TOLD, DONE IN A HIGHLY PROFESSIONAL MANNER). THE REAL DECISIONS ON WHICH PROJECTS TO INCLUDE MUST AWAIT STUDY BY THE BOARD OF EACH SUCH PROJECT. PRICING OF GAS IS STILL TO BE SETTLED, AN OBVIOUS POINT OF NEGOTIATION, AS IS ACCESS TO U.S. MARKET WHICH IS PLACED MORE IN JEOPARDY THEN EVER BEFORE BY PRESIDENT FORD'S RECENT DECISIONS ON OUR OWN ENERGY POLICY.

8. DURING THE MEETINGS OF THE ECONOMIC COMMISSION ONE OF THE KEY PETROMIN TECHNICIAN DECISION-MAKERS REPEATEDLY QUERIED US REGARDING OUR INTENTIONS ON GIVING ACCESS TO

OUR MARKET FOR THEIR PRODUCTS BY 1979/80. A READING OF THE PLAN MAKES IT OBVIOUS WHY SAG IS CONCERNED SINCE MANY OF THE KEY INDUSTRIES (THOUGH NOT ALL BY ANY MEANS) WILL DEPEND ON SECURE ACCESS TO OUR MARKET. IT IS POSSIBLE THAT SUCH MARKET ACCESS MAY BECOME A KEY AGEND ITEM EITHER FORMALLY OR INFORMALLY (WE WOULD CHOOSE THE LATTER) AT THE FORTHCOMING PRODUCER-CONSUMER CONFERENCE. COUPLED WITH A POSSIBLE JOINT U.S./SAUDI FERTILIZER IN PLACE OF FOOD PROGRAM FOR THE HUNGRY WORLD OF THE EIGHTIES, WE SEE THE PETROMIN PLAN AND SAUDI DESIRE FOR INDUSTRIALIZATION POSSIBLY AS CONTRIBUTING TO AN ENERGY DETENTE WITH THE KINGDOM AND THE OIL PRODUCERS IN GENERAL.

9. EMBASSY WILL BE SUBMITTING THE PLAN ITSELF BY AIR-GRAM WITH ADDITIONAL ANALYSIS. AKINS UNQUOTE INGERSOLL

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